

STATE OF LOUISIANA LEGISLATIVE AUDITOR

**Municipal Facilities Revolving Loan Fund
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana**

April 4, 2001



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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Daniel G. Kyle, Ph.D., CPA, CFE

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**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2000**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

April 4, 2001

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

**Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2000**

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March 16, 2001

Independent Auditor's Report
on the Financial Statements

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund, as of and for the year ended June 30, 2000, as listed in the foregoing table of contents. These financial statements are the responsibility of the Municipal Facilities Revolving Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position and results of operations and cash flows of the Municipal Facilities Revolving Loan Fund. These statements are not intended to present fairly the financial position of the State of Louisiana, or the Louisiana Department of Environmental Quality, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

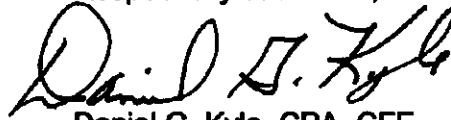
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund as of June 30, 2000, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

LEGISLATIVE AUDITOR

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Audit Report, June 30, 2000**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2001, on our consideration of the Municipal Facilities Revolving Loan Fund's internal control over compliance with certain laws and regulations and our tests of compliance with these laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle", is written over a horizontal line.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

VWW:BMc:PEP:dl

[MFRLF00]

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Balance Sheet, June 30, 2000

ASSETS

Current assets:

Cash in state treasury (note 2)	\$45,666,971
Receivables - due from others (note 3)	<u>1,814,828</u>
Total current assets	47,481,799
Long-term loans receivable (note 4)	<u>176,366,064</u>

TOTAL ASSETS	<u>\$223,847,863</u>
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LIABILITIES AND FUND EQUITY

Current liabilities - accounts payable
and accrued expenses

\$68,539

Fund Equity:

Contributed capital:

Environmental Protection Agency (note 6)	174,899,340
State of Louisiana (note 6)	26,753,586
Retained earnings - unreserved (note 6)	<u>22,126,398</u>
Total Fund Equity	<u>223,779,324</u>

TOTAL LIABILITIES AND FUND EQUITY	<u>\$223,847,863</u>
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The accompanying notes are an integral part of this statement.

Statement B**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND****Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended June 30, 2000****OPERATING REVENUES**

Interest earned on loans receivable	\$4,947,701
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OPERATING EXPENSES

Administrative expenses	<u>765,131</u>
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OPERATING INCOME

	4,182,570
--	-----------

NONOPERATING REVENUES (Expenses)

Interest earned on cash in state treasury	<u>1,877,356</u>
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NET INCOME

	6,059,926
--	-----------

RETAINED EARNINGS AT BEGINNING OF YEAR

	<u>16,066,472</u>
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RETAINED EARNINGS AT END OF YEAR

	<u><u>\$22,126,398</u></u>
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The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Year Ended June 30, 2000**

Cash from operating activities:

Cash received from customers	\$5,565,807	
Reimbursements of payments for goods and services	(771,330)	
Claims paid to outsiders	<u>(20,761,651)</u>	
Net cash provided (used) for operating activities		(\$15,967,174)

Cash flows from capital and related financing activities

Capital contributions		25,705,708
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Cash flows from investing activities

Interest on investments		<u>1,877,356</u>
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Net increase in cash and cash equivalents		11,615,890
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Cash and cash equivalents at beginning of year		<u>34,051,081</u>
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Cash and cash equivalents at end of year		<u>\$45,666,971</u>
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**Reconciliation of operating income to net
cash provided (used) by operating activities:**

Operating income		\$4,182,570
Changes in assets and liabilities:		
Decrease in receivable	\$618,107	
Increase in loans receivable	(19,281,121)	
Decrease in accounts payable and accrued expenses	(5,880)	
Decrease in loan disbursements payable	<u>(1,480,850)</u>	
Total adjustments		<u>(20,149,744)</u>
Net cash provided (used) by operating activities		<u>(\$15,967,174)</u>

The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements
For the Year Ended June 30, 2000

INTRODUCTION

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Title 30, Chapter 11 of the Louisiana Revised Statutes of 1950 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Municipal Facilities Revolving Loan Fund (MFRLF) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The MFRLF Program presently operates under Louisiana Revised Statutes (R.S.) 30:2078-2088. These statutes establish a state revolving loan fund capitalized by federal grants (Capitalization Grants for State Revolving Funds Program, CFDA 66:458), by state funds when required or available, and by any other funds generated by the operation of the clean water revolving loan fund. DEQ is authorized to engage in activities regarding the sums on deposit in, credited to, or to be received by the state revolving loan fund. The Financial Services, Environmental Technology, and Environmental Evaluation divisions within DEQ are responsible for the operations of the MFRLF Program in the State of Louisiana. The divisions provide assistance to municipalities in the development, financing, and implementation of wastewater treatment management plans and plants. Engineering oversight, design review, and inspection services are provided by the Environmental Technology Division; environmental assessment services are provided by the Environmental Evaluation Division; and grant management and financial services are provided by the Financial Services Division on eligible wastewater treatment projects. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

The MFRLF does not have any full-time employees. However, the time spent on the MFRLF by employees of the department is captured and the MFRLF subsequently reimburses DEQ for salaries and benefits and other operating expenses of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana that is administered by DEQ, a department within state government. The MFRLF is part of the primary government of the State of Louisiana and is reported as an enterprise fund within the State of Louisiana's general purpose financial statements.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

B. FUND ACCOUNTING

The MFRLF uses an enterprise fund (proprietary fund) to report on its financial position and results of operations. The enterprise fund accounts for the activities relative to making and collecting loans for the planning, design, construction and rehabilitation of wastewater treatment facilities for the various municipalities within the State of Louisiana.

C. BASIS OF ACCOUNTING

The proprietary fund is accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operations of this fund are included on the balance sheet. The MFRLF uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time the liabilities are incurred.

Under the provisions of GASB Statement No. 20, the MFRLF follows the pronouncements of the GASB and has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

D. BUDGETS AND BUDGETARY ACCOUNTING

The MFRLF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 60 of 1999) authorized expenditures of \$61,392,813 for the MFRLF for fiscal year 1999-2000 and allows the fund to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

E. LOANS RECEIVABLE

The MFRLF is operated as a direct loan program. The program is one that provides loans and other financial assistance to municipalities (cities, towns, political subdivisions) for the purpose of constructing publicly owned treatment works, implementing nonpoint source pollution management programs, and developing and implementing estuary conservation and management plans.

The program lends federal and state monies directly to municipalities. The federal share is 80% and requires a state matching share of 20%. Recycling of principal and interest repayments from borrowing municipalities allows the program to operate in perpetuity, thereby benefiting other municipalities wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to municipalities. Interest earnings on investments and loans can be used to make

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

additional loans. In addition, with Environmental Protection Agency (EPA) approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

The loans made by the MFRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.45% interest for new sewer construction/sewer system rehabilitation projects. Several loans have been made at higher interest rates and the program has the ability to change its interest rates as necessary.

As evidence of its obligations to pay principal and interest on the loans, each borrower must have in place or establish a dedicated revenue source for repayment of the loan. Collections of the revenue source dedicated to repayment of the loan must be equal to 133% of the loan amount for sales tax revenues, 125% for sewer user fees or ad valorem taxes, or 100% for general obligation bonds. Each loan recipient is also required to set up a debt service reserve fund equal to one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

F. CONTRIBUTED CAPITAL

The funds drawn from the EPA capitalization grants authorized by Title VI of the Federal Water Quality Act of 1987 and the state matching funds are recorded as contributed capital.

2. CASH

As reflected on Statement A, the MFRLF has cash totaling \$45,666,971 at June 30, 2000. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States are included within the State of Louisiana's financial statements.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

3. DUE FROM OTHERS

As shown on Statement A, the MFRLF has a total due from others of \$1,814,828 and is comprised of the following:

Due from the federal government	\$57,448
Due from municipalities	<u>1,757,380</u>
Total due from others	<u>\$1,814,828</u>

Of the \$1,757,380 due from municipalities, \$1,341,720 is interest and \$415,660 is principal on loans.

4. LOANS RECEIVABLE

The MFRLF makes loans to qualified political subdivisions of the State of Louisiana for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between 2.45% and 5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2000, are as follows:

Completed projects	\$82,059,840
Projects in progress	<u>94,306,224</u>
Total	<u>\$176,366,064</u>

Loans will mature at various intervals through September 1, 2022. The scheduled principal payments on loans maturing in subsequent years are as follows:

	<u>Completed Projects</u>	<u>Projects in Progress</u>	<u>Total</u>
Year ending June 30:			
2001	\$4,618,548	\$4,115,000	\$8,733,548
2002	4,794,405	4,431,000	9,225,405
2003	4,980,048	4,617,000	9,597,048
2004	5,144,658	4,885,000	10,029,658
2005	5,324,281	5,066,000	10,390,281
Thereafter	<u>57,197,900</u>	<u>71,192,224</u>	<u>128,390,124</u>
Total	<u>\$82,059,840</u>	<u>\$94,306,224</u>	<u>\$176,366,064</u>

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Loans to Major Local Governments

As of June 30, 2000, the MFRLF had made loans to 17 local governments that, in the aggregate, exceeded or equaled \$4.5 million for each municipality. The outstanding balances of these loans represent approximately 84% of the total loans receivable as follows:

<u>Local Government</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
St. Charles Parish	\$47,300,000	\$36,601,227
Natchitoches	20,124,559	14,137,757
Lafayette	18,400,000	13,444,933
Kenner	12,890,677	10,795,000
Bogalusa	12,500,000	10,937,183
Bastrop	7,500,000	6,325,000
Gonzales	7,500,000	6,092,392
Crowley	12,000,000	3,960,590
New Iberia	10,000,000	6,844,394
Bossier City	6,500,000	5,879,130
Jennings	6,500,000	5,089,310
Rayne	6,450,000	5,378,545
Springhill	6,300,000	5,354,304
Caddo-Bossier Port Commission	6,250,329	5,275,000
Opelousas	5,000,000	3,773,877
Leesville	4,710,000	3,920,000
Ruston	4,637,282	3,560,000
Total	<u>\$194,562,847</u>	<u>\$147,368,642</u>

5. LONG-TERM OBLIGATIONS

The MFRLF by statute is allowed to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, DEQ received approval from the EPA to borrow matching funds. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 30:2078 *et seq.*, was authorized, for state matching purposes, to borrow through the issuance of the department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state. The serial bond issue is called Louisiana Public Facilities Authority Taxable Revenue Bonds (Municipal Facilities Revolving Loan Fund Match Project) Series 1995. This indebtedness was secured solely from the pledge of a portion of the revenues received by the department from loans made by the program.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. In accordance with the \$15,000,000 Loan Agreement between the LPFA and the department and in accordance with the \$15,000,000 Indenture of Trust between the LPFA and First National Bank of Commerce, the trustee, the LPFA issued serial bonds for \$15,000,000 and was repaid the \$15,000,000 by June 30, 1999. As of June 30, 2000, \$14,654,092 has been generated for matching fund purposes by the issuance of these serial bonds. Future serial bonds may be issued through LPFA as needed for future state matching purposes. No liability exists at June 30, 2000.

**6. CONTRIBUTED CAPITAL AND
RETAINED EARNINGS**

The MFRLF has been awarded 12 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH). These grants are authorized by Title VI of the Federal Water Quality Act of 1987 and require matching funds from the state. As of June 30, 2000, the EPA has awarded grants of \$190,787,737 to the state, of which \$174,899,340 has been drawn for loans and administrative expenses. The state has provided matching funds of \$41,407,678. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

<u>Year</u>	<u>Grant Amount</u>	<u>Cumulative Dollars Drawn as of June 30, 1999</u>	<u>Current Fiscal Year Draws</u>	<u>Cumulative Dollars Drawn as of June 30, 2000</u>	<u>Remaining Grant Dollars Available as of June 30, 2000</u>
1988	\$12,000,000	\$12,000,000		\$12,000,000	
1989	10,368,765	10,368,765		10,368,765	
1990	10,725,264	10,725,264		10,725,264	
1991	22,560,714	22,560,714		22,560,714	
1992	21,359,349	21,359,349		21,359,349	
1993	21,129,174	21,129,174		21,129,174	
1994	13,110,372	13,110,372		13,110,372	
1995	13,540,230	13,540,230		13,540,230	
1996	22,179,267	22,179,267		22,179,267	
1997	6,820,400	5,220,497	\$1,599,903	6,820,400	
1998	22,190,138		21,094,101	21,094,101	\$1,096,037
1999	14,804,064		11,704	11,704	14,792,360
Total	\$190,787,737	\$152,193,632	\$22,705,708	\$174,899,340	\$15,888,397

The state has provided its required matching share of federal grant awards through appropriations of General Fund and state capital outlay funds. Cash contributions from General Fund and capital outlay appropriations have totaled \$23,753,586. An additional cash contribution of \$3,000,000 was made from Tobacco Settlement proceeds in fiscal year 2000. In addition, part of the required matching share has been provided through the issuance of

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Revenue Match Bonds secured by revenue of the fund. Beginning in fiscal year 1995, revenue bonds of \$15,000,000 were authorized. As of June 30, 2000, bonds totaling \$15,000,000 have been issued and repaid resulting in net proceeds of \$14,654,092 being used as state matching funds. As of June 30, 2000, matching contributions are as follows:

	Cumulative State Match as of June 30, 1999	2000 Contribution	Cumulative State Match as of June 30, 2000
State cash contribution	\$23,753,586	\$3,000,000	\$26,753,586
Revenue bond proceeds	14,654,092		14,654,092
Total	<u>\$38,407,678</u>	<u>\$3,000,000</u>	<u>\$41,407,678</u>

<u>Components of Contributed Capital and Retained Earnings</u>	<u>Amount</u>
Contributed capital:	
Environmental Protection Agency	\$174,899,340
State of Louisiana match	26,753,586
Total contributed capital	<u>201,652,926</u>
Retained earnings - unreserved:	
Cumulative loan interest earnings	20,886,630
Cumulative treasury interest earnings	7,063,029
Administrative fee deposit	260,911
Cumulative administrative expenses	(5,738,073)
Cumulative bond issuance expenses	(346,099)
Total retained earnings	<u>22,126,398</u>
Contributed Capital and Retained Earnings	<u>\$223,779,324</u>

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

7. ADMINISTRATIVE EXPENSES AVAILABLE

Four percent of the federal grant amounts awarded by the EPA are allocated to fund the administrative cost of operating the revolving loan program. The following schedule presents each grant, the 4% amount allocated from each grant, the cumulative expenses incurred and drawn in administering the program, and the amount available to be drawn from the EPA for future administrative expenses.

<u>Grant Source</u>	<u>4% Amount From Grant for Administrative Cost</u>	<u>Costs Incurred</u>	<u>Amount Available for Draw From EPA for Administrative Cost</u>
CS220001-88-0	\$480,000	\$480,000	
CS220001-89-0	414,751	414,751	
CS220001-90-0	429,010	429,010	
CS220001-91-0	902,428	902,428	
CS220001-92-0	854,374	854,374	
CS220001-93-0	845,167	845,167	
CS220001-94-0	524,415	524,415	
CS220001-95-0	541,609	541,609	
CS220001-96-0	887,171	746,319	\$140,852
CS220001-97-0	272,816		272,816
CS220001-98-0	887,605		887,605
CS220001-99-0	592,163		592,163
Total	<u>\$7,631,509</u>	<u>\$5,738,073</u>	<u>\$1,893,436</u>

8. RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The MFRLF has no lawsuits outstanding at June 30, 2000.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133

The following pages contain a report on compliance with requirements applicable to the Capitalization Grants for State Revolving Funds Program and on internal control over compliance with the requirements applicable to the program, as required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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March 16, 2001

Report on Compliance With Requirements Applicable to the Capitalization
Grants for State Revolving Funds Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the Capitalization Grants for State Revolving Funds Program (CFDA 66.458) for the year ended June 30, 2000. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program is the responsibility of the Louisiana Department of Environmental Quality management. Our responsibility is to express an opinion on the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Environmental Protection Agency's *Clean Water State Revolving Loan Fund* audit guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance, with the types of compliance requirements referred to above that could have a direct and material effect on the program, occurred. An audit includes examining, on a test basis, evidence about the Municipal Facilities Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for State Revolving Funds Program for the year ended June 30, 2000.

LEGISLATIVE AUDITOR

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Compliance and Internal Control Report

March 16, 2001

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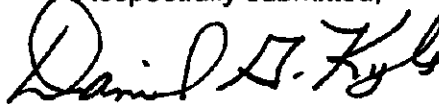
Internal Control Over Compliance

Management of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for State Revolving Funds Program (CFDA 66.458), in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management of the Louisiana Department of Environmental Quality and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

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[MFRLFOO]